

SECRETARY PRESTON UNDERScores DRAMATIC CHANGES IN DOD'S ACQUISITION ARENA

*"We Simply Cannot Continue to Conduct
Business the Way We Have in the Past"*

Collie J. Johnson

The Deputy Under Secretary of Defense (Acquisition Reform), Mrs. Colleen Preston, emphasized the dramatic changes taking place in the Department of Defense (DoD) acquisition arena in her keynote address to the students of PMC 95-1, Defense Systems Management College (DSMC), on 24 January 1995 at DSMC's Scott Hall. In her opening remarks, Secretary Preston told the students, "We live in changing times — something not said lightly because you are embarking on a course of study that will take you through some of the largest changes that we will see in the acquisition business in our lifetimes."

Reviewing past attempts at acquisition reform, she reminded her audience that "We [DoD] have in fact been doing acquisition reform continuously for years — since the first spare parts horror story in 1983. In the

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Honorable Colleen Preston, Deputy Under Secretary of Defense (Acquisition Reform).

meantime, something else has changed — the world has changed dramatically. And these new world changes mean that we have new national security challenges, a drastically reduced budget, and technology changing faster than the system can respond."

Security Challenges

Secretary Preston outlined several security challenges facing our nation,

stating that, "We now have a situation of mostly regional or limited conflicts." Other major concerns she highlighted were the proliferation of weapons of mass destruction — both nuclear and non-nuclear — and the possible failure of democratic reforms in the former Soviet Union. She also mentioned the risks to our U.S. economic stability, and the fact that "we are not leading the world in technology development as we have in the past."

"And if you stop to think about it, it's amazing when you look at the statistics; we call this the age of peace — the time after the Cold War. And yet, our Army has been performing missions at a rate up to 300 percent greater than we did prior to the fall of the Berlin Wall. Our Air Force has flown in Bosnia alone over 13,000 sorties and delivered over 70,000 tons of milk and medicine. It is history's longest running humanitarian airlift operation — twice as long as the Berlin airlift."

Defense Budget

"Our mission is changing," she continued. "We are doing everything from providing humanitarian assistance here in the U.S. to half-way around the world. All during a time of peace, when the country expects, and has reduced its spending on defense." Secretary Preston stressed that, "This is the 10th year of a declining defense budget." Our overall budget has been reduced 40 percent, but our procurement accounts have been reduced over 65 percent. And as we downsize, we take our most modern equipment and give it to a smaller number of troops. And that has a cascading effect — by the time we're done, essentially we've eliminated inventory and modernized at the same time."

"We're at the point now," she insisted, "where we have to spend the capital to start investing in modernization. Because we have now finished using up all of our good equipment — our modern equipment — and now we're going to have to start investing the money to recapitalize those equipment stores. So we must look forward not only to a stop in the budget decline, but an increase in the defense budget, just to keep us where we are today."

Technological Superiority vs. Numerical Superiority

Secretary Preston next discussed rapidly changing technology and its impact on the way we look at the acquisition process today. "Technol-

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ogy is changing so rapidly," she remarked, "that the system can't keep up. Look at information systems technology, which turns over on an average of every 18 months. Yet, to process a simple Request for Proposal, not using small purchase procedures, takes an average of 90 days; a negotiated procurement, an average of 210 days; and a complex services contract to support one of our program management offices, an average of 300 days. We can't even get on contract before technology is obsolete."

"But most important," she affirmed, "we must remember our national security strategy is founded on the precept that we will maintain *technological* superiority rather than *numerical* superiority. We've been able to do that in the past because we have been the leader in technology." Secretary Preston went on to say that "with our reductions in defense spending and other world changes, the majority of technological development is happening in the commercial sector — and it is available to the world."

Integration Key to Winning the Technology War

Speaking of our nation's role in winning the technology war, Secre-

tary Preston said that "the building blocks that make up our fundamental major weapons systems are primarily electronic in nature, and that electronic capability is too easily spread around the world. Our past strategy of being able to keep technology a secret, therefore giving us an advantage over our opponents, is no longer a viable strategy." She believes the key to winning the technology war now is integration. "The first to be able to integrate the technology already out there will maintain the superior force."

Change Critical to Acquisition Process

"Why are these world changes so critical to the acquisition process?" Secretary Preston posed this question to the students as she systematically outlined the reasons why. "First, the nature of the threat is so unpredictable now — the acquisition system must be even more flexible and agile than it was in the past. Because of the decline in the budget, affordability rather than performance of systems becomes paramount when making those critical tradeoffs between cost, schedule, performance and reliability. Because DoD cannot maintain the infrastructure that we have had in the past, we can no longer support a defense-unique industrial base. We are going to have to rely on commercial suppliers who can meet DoD's needs, if necessary. And we are no longer a large enough customer of most suppliers to be able to dictate to them the terms and conditions under which they contract with the federal government."

Secretary Preston then noted that "the DoD acquisition system has been based on a foundation of meeting some very important goals, which add complexity and time to the acquisition process: ensuring that the acquisition process is fair; preventing fraud, waste and abuse; standardizing treatment of contractors; ensuring that the government receives a fair and reasonable price when buying products that are not commercially available or competitively available; checks on the

government's demands upon its suppliers; and furthering socioeconomic objectives. The problem is that all of these demands, while valid goals of our acquisition process, add up to something so complex that it becomes a minefield in which to navigate in trying to accomplish the objective."

"In addition," she continued, "our internal DoD structure — our acquisition systems and acquisition organizations — is such that, it has evolved to respond to a different time and purpose. What we have is an industrial-era bureaucracy that was created and was responsive to the needs we had in the past — a very hierarchical structure. We minimized training requirements by making people experts in certain areas; we created stovepipes of these functional experts; and we are now learning that when competition is based on time, not efficiencies of scale, that we can no longer keep that type of management structure. We have to break down the walls. We have to integrate teams. We can no longer maintain functional stovepipes because the handoffs that occur between these functional experts inherently cause errors and use time. We can no longer afford that."

Why Change the Acquisition Process that Produces the Best Systems in the World?

Secretary Preston referred to the apparent irony in changing an acquisition system that has developed the best systems in the world. She affirmed that, indeed we have been the best in the world — no question about it. However, many in the acquisition arena would agree that it has been done, not because of the system, but because of the great people who work in the system. These dedicated workers, she believes, have figured out ways to get around the impediments that have been thrown up within the acquisition system. They fought hard to find those ways around the system in order to deliver products, for example, in Desert Shield and Desert Storm.

"If we had to identify any one problem ... it is to build into our system some way to reward and provide incentives for people to make judgments and to take risks — because our risk-averse system right now is killing us."

Secretary Preston stated that "the current system lacks flexibility and agility. No one person is accountable for the entire process, so it's difficult for anyone to make change." She went on to say that "the system poses barriers to the acquisition of commercial products and state-of-the-art technology because we apply government-unique laws and regulations that many commercial companies will not accept. For example, The Truth in Negotiations Act and the requirement for cost and pricing data — these are things that commercial companies have now rejected, given the fact that DoD is such a small part of their business base. They'd just as soon not sell to us. And many of them have stopped, or they have started selling through other companies so that these provisions do not apply to them. Therefore, we're paying for the overhead and pass-through costs of having these contractors sell to us through middlemen."

Risk-Averse System is Killing Us

"But probably the biggest problem we face," according to Secretary Preston, "is that the system right now has few, if any, incentives within its structure to take risks. And that is something that our senior management recognizes in OSD and in all the Services. If we had to identify any one problem that we must solve as we go through the process of acquisition reform, it is to build into our system some way to reward and provide incentives for people to make judgments and to take risks — because our risk-averse system right now is killing us."

"Right now we are spending too much time to make sure that our system is perfect," she emphasized. We cannot abandon our goals because they are valid goals of the procurement process. But what we must do is better balance what the costs of achieving those goals are with the achievements that we gain from pursuing those goals. And above all, we cannot lose sight of the fact that the acquisition system is not an end in itself — that it was created to serve a purpose: *to meet the warfighters' needs.*"

Changing the Process

Secretary Preston recapped DoD's vision for acquisition reform: "that the DoD will become the world's smartest buyer of best-value goods and services that meet the warfighters' needs, on time and within budget, while maintaining the public trust and supporting the nation's socioeconomic and industrial base goals." She then went on to outline how we propose to execute that vision.

1) *Establishment of the Office of the Under Secretary of Defense for Acquisition Reform.* The DoD established this office to be a focal point and a catalyst for the development of a coherent and practical step-by-step plan to reengineer the acquisition process, while focusing on implementation and institutionalization of acquisition re-

forms. "That is the charter that I have been handed by Secretary Perry," she stated, "to make sure that we implement the changes that we are pursuing now."

2) *Process Action Teams*. Secretary Preston told the students that Process Action Teams are an integral part of her office's strategy to implement acquisition reforms. These are teams of individuals from the field — "experts like yourself," she explained, "who know what it is to buy on a day-to-day basis, and know what it's going to take to make the system right."

"We have had tremendous support from the Process Action Teams. They've tackled some very difficult issues. People have come together. They have worked through the process of team building and spent 3 to 5 months together trying to work out recommendations and implementation plans. They have identified the road map to get us there — the implementation plan — and they are also tasked with identifying the incentives in the existing process that are inhibitors to making change."

3) *Senior Acquisition Reform Steering Group*. This group is made up of representatives of various affected offices, the Services, Defense agencies, OSD offices, Inspector General, Defense Contracting Audit Agency — all of whom are essential to the process of acquisition reform. Secretary Preston emphasized that this group represents the stakeholders, and that "acquisition reform will not happen unless we are all in this together. The critical element is implementation, and every one of us must work together to implement these reforms and achieve these goals."

Secretary Preston offered that it is not practical for the OSD senior leadership to observe the field's implementation of these initiatives on a day-to-day basis. However, representatives from her office participate in the major systems arena by sitting in

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on every Defense Acquisition Board (DAB) and every Defense Acquisition Executive's meeting. Part of their agenda is to keep the key issues up front: streamlining; performance specifications, not MILSPECs; and using contractor's data rather than requiring them to reformat their data for our use.

Acquisition Initiatives

Secretary Preston then moved on to discuss the three categories basic to achieving our acquisition goals: what we buy, how we buy it, and under what terms and conditions.

What We Buy

Under what we buy, she stated that we have already instituted recommendations of a Process Action Team on specifications and standards reform. Secretary Perry, on 29 June 1994, directed DoD to use performance specifications as the default beginning 26 December 1994. If a performance specification cannot

meet the user's needs, then a nongovernmental standard may be used. If a nongovernmental standard will not meet the user's needs, then a MILSPEC may be used — but only after receipt of a waiver from the Milestone Decision Authority (MDA). The only things that are excluded from the waiver process, even though the underlying philosophy applies, are spares and reparable.

How We Buy

Secretary Preston then directed her comments to another major focus — the adoption of commercial practices to acquire not only commercial items, but military-unique items. As an example, she cited recently approved regulatory waivers for the JPATS and JDAM programs, some DPSC procurements, Commercial Derivative Engines, Commercial Derivative Aircraft, and a few Army lead programs.

She then described the two types of programs her office is currently working: "pilot" programs, which are those programs that need not only regulatory waivers, but also statutory waivers to buy using commercial practices; and "lead" programs, which require only regulatory waivers and no statutory changes. She commented that DoD has been successful in getting the statutory waivers for these major systems, which are military-unique systems that are either derivatives of a commercial product or composed primarily of commercial components.

Terms and Conditions

In addition, she continued, "we succeeded in working with Congress to pass the Federal Acquisition and Streamlining Act of 1994 (FASa). We're now going through the process of trying to see what changes can be made in the programs to streamline them further, allowing the contractor and the government to save money by using commercial suppliers to a greater extent."

Secretary Preston defined another goal as improving the Service and

OSD milestone decision making and information collection processes for major systems, or the DAB process — the oversight and review process that all program managers have to go through in order to get their programs approved at the OSD level or Service level. She referred back to the Process Action Team that was housed at DSMC for 3 months, and stated that they have completed their report and made a number of far-reaching and very provocative recommendations in terms of changing the existing way in which we review programs. That report is now being coordinated throughout DoD.

Her office finished assimilating the comments generated by that report and made recommendations, along with the Acquisition Reform Senior Steering Group, to Secretary Kaminski. They [her office, the Process Action Team, and representatives of various OSD offices] will then meet with Secretary Kaminski and the Service Acquisition Executives to resolve outstanding issues and concerns about some of those recommendations, and determine which ones can be implemented immediately. She expects an implementation memorandum resulting from the Acquisition Oversight and Review Process Action Team efforts by the end of February.

“We are trying to adopt internal best practices of world-class customers and suppliers, and one of the ways we identified as a mechanism to reach that goal is to pursue legislative change. In the FASStA, we received about 95 percent of what we needed to make all of the changes necessary so that DoD can become a world-class customer and supplier.” Accordingly, the drafters of FASStA focused the statute on two primary objectives:

1) Increasing the small purchase threshold to \$100 thousand so DoD could use simplified procedures for 99 percent of our contract actions. These actions account for only 16 percent of our dollars, freeing up well trained

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contracting officers and senior buyers to work on that 1 percent of contracts that encompass 84 percent of our dollars. “The savings there are phenomenal,” she noted.

2) The second objective in crafting FASStA was focused on removing government-unique laws and regulations from the acquisition of commercial products, including “pilot” programs, which are deemed commercial products for purposes of the statute. As a result of the report of the Procurement Process Action Teams, her office is looking at further legislative changes. Additionally, the Contract Administration Team’s recommendations have just gone out for comment, and she expects responses soon. Secretary Preston then briefly characterized what the Process Action Team is trying to do in the area of Contract Administration as “...the need to move from inspection to process control. We need to be out of the business of inspecting products and contractors, period.”

She noted that in a recently completed study — the first empirical study or verifiable study of its kind — an independent accounting firm looked

at what it costs to do business with the government by examining firms who do both commercial and government business. The study concluded from an activity-based cost accounting assessment, that the government was paying an 18-percent price differential compared to what the commercial sector was paying for essentially the same product. This disparity was attributed to—

1) *The MILQ 9858a Quality Assurance Standards*. The requirements imposed by this document are different from anything contractors use in their commercial divisions.

2) *The Truth in Negotiations Act*. This Act requires contractors to maintain accounting data based on cost for every product. Commercial companies do not track their costs on a product-by-product basis; therefore, all of the costs of creating that accounting system are added costs. “Knowing what it costs the contractor to build the product is helpful,” reasoned Secretary Preston, “when we’re negotiating in a sole-source environment, but it doesn’t guarantee that we’re getting a fair and reasonable price, because that contractor could be totally inefficient.”

According to Secretary Preston, changes to the regulations and the Truth in Negotiation Act are out for public comment. The goal is to establish the critical element as the determination of *price reasonableness*. She also reiterated that contracting officers should go through a step-by-step process to determine price reasonableness without requesting cost and pricing data. Requesting such data, she continued, “should be the last alternative we pursue because that is the most costly option to the government, to industry, and is one of the biggest inhibitors to companies selling to the U.S. Government.”

Integrated Product and Process Development Teams

Secretary Preston highlighted still

another ongoing initiative — the expanded use of integrated decision or integrated product and process development teams. “We’re looking at this, not only from the standpoint of a program management office or a program structure, but also in terms of the DAB process.” In the past, she remarked, OSD officials were the ones that the program manager confronted 6 months prior to the DAB in an attempt to bring them up-to-speed and answer all their questions. These same OSD officials, she continued, may have even delayed the process by holding the program managers hostage to make changes they [program managers] wanted. Now, OSD representatives are involved in the process up front and are a part of the team with the program manager.

“...I think it’s probably one of the most positive steps that has been taken. It doesn’t preclude that individual from giving the Under Secretary of Defense (Acquisition and Technology) an independent assessment of the program at some later point in time. What it does is ensure that the issues are at least raised as [they] go

through the process.” Secretary Preston then affirmed that she would go so far as to say that if she had her way, “no one in OSD can raise an issue if they have not brought it up to the program manager’s attention prior to the time when that program comes up for a DAB.”

As a part of that process, she referred to the importance of teamwork: “...anyone who is in the oversight and review process is in fact part of the team and as a result, bears responsibility for decisions made by the team...” Secretary Preston believes that the fallacy of holding the Program Manager exclusively accountable for the program will be a thing of the past because there are so many outside variables that impact on management of a program, including congressional and budget limitations — all of which the program manager has no ability to control.

Conclusion

In concluding her remarks, Secretary Preston stated that “We are in an environment of change. And the fact that we are going to have to accept

that change is now a given, rather than the exception. Many people have said that you cannot reorganize or reengineer an entity or enterprise unless it reaches the crisis stage. We in DoD are at that crisis stage. We simply cannot continue to conduct business the way we have in the past. We won’t have the people to do it; we don’t have the money to do it; and every dollar that we spend on that infrastructure is a dollar that we lose in terms of a person out there in the field with the proper equipment to do their job.”

Secretary Preston then offered her insight into and vision of the changing acquisition environment: “Think about the Chinese symbol for crisis. It is actually two brush strokes: one danger, and the other opportunity. You have at your hands, the chance to jump at this opportunity. Please, don’t give that up. Make the most of it, and think as you go through the next 20 weeks about how you yourself, every day as you walk into your office after you leave this course, can change the process for the better.”

MEETING AND GREETING THE SENIOR SENATOR FROM SOUTH CAROLINA



Photo by Richard Mattox

Some of our instructors and students take “networking” quite literally. Lt. Col. Fred Yarborough, Professor of Acquisition Management, Defense Systems Management College, accompanied by fellow Citadel graduates, attended a reception on 2 February 1995 in honor of Capitol Hill’s South Carolina delegation. During the reception, Senator Strom Thurmond (R-S.C.) was awarded the [Citadel] President’s Leadership Award. From left: Maj. H.R. Zucker, USAF, PMC 95-1; Lt. Col. Fred Yarborough, USAF, DSMC; Senator Strom Thurmond (R-S.C.); Maj. Tim Crosby, USA, PMC 95-1.